



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of **Golden State Water Company** (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.

A.06-09-006

**PROTEST  
OF THE DIVISION OF RATEPAYER ADVOCATES  
TO THE APPLICATION OF GOLDEN STATE WATER COMPANY  
FOR AUTHORITY TO IMPLEMENT CHANGES IN  
RATESETTING AND ALLOCATION OF RATES**

Maria L. Bondonno  
PUC Counsel III

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 355-5594  
Fax: (415) 703-4432

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**I. INTRODUCTION**

Pursuant to Rule 2.6 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure (Rules), the Division of Ratepayer Advocates (DRA) files this protest to Application (A.) 06-09-006 of Golden State Water Company (GSWC) for authority to implement changes in ratesetting and allocation of rates. The application raises issues that merit further detailed investigation by DRA. Many of GSWC's requests in this application represent fundamental changes in existing Commission policies that should properly be considered in a rulemaking proceeding.

**II. APPLICATION**

GSWC requests authority to establish specific rate mechanisms and ratemaking policies with respect to GSWC's three service regions. GSWC also requests that the Commission bifurcate the proceeding into two phases: a policy phase and an implementation phase.

### **III. SUMMARY OF ISSUES**

GSWC requests significant changes to its ratesetting mechanisms, which would require significant policy changes by the Commission. The changes include: (1) Water Quality Memorandum and Water Quality Compliance Offset Accounts; (2) Long Term Planning for Water Infrastructure Projects; (3) Water Shortage Allocation Policy; (4) Infrastructure System Replacement Surcharge; (5) State Bond Funding of Water Infrastructure Projects; (6) Water Revenue Adjustment Mechanism (WRAM); (7) Balancing Accounts, Cost Recovery of Expenses and Earnings Test; (8) Increasing Block Rate Structure; (9) Single, State-Wide Rate for GSWC Operations; (10) Regulatory and Investment Environment Policy Changes; and (11) Consolidation of Non-Viable Water Utilities.

DRA has serious concerns regarding all of GSWC's requested changes to its ratesetting mechanisms. As stated above, many of the issues represent fundamental changes in Commission water policy that would be better addressed in a rulemaking. Additionally, GSWC's application raises serious concerns regarding customer notice, public participation, due process, and requires the expansion of the existing service list.

### **IV. RATESETTING MECHANISMS AND POLICIES**

#### **A. Water Quality Memorandum and Water Quality Compliance Offset Accounts**

1. DRA will consider whether uniform criteria should be used in establishing WQMA's in GSWC's districts

GSWC requests Commission authorization to establish a Water Quality Management Account (WQMA) for Region I, and to apply the regulatory instructions established for GSWC's WQMA in Region II to Regions 1 and 3. GSWC <sup>1</sup>points out that it has no authority for a WQMA in Region I, and that the current regulatory

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<sup>1</sup> A.06-09-006, pp. 11-12.

instructions established for its WQMA in Region II and Region III are different.<sup>2</sup>

GSWC asserts that the regulatory instructions for its WQMA in Region II is preferable because it authorizes WQMA for any new regulation or requirement established by either a state or federal agency thereby providing customers with the most assurance of water quality protection.<sup>3</sup>

DRA is not opposed to considering whether GSWC needs a WQMA in Region I, and whether the regulatory instructions applicable to GSWC's WQMA in Region II should apply to Region I and Region III. However, DRA would have to examine the unique conditions of water resources in each geographical region and consider factors such as varying levels and sources of contamination, which may account for different regulatory requirements from region to region. DRA needs to conduct discovery on this and other relevant issues prior to making a recommendation on this issue.

2. DRA strongly opposes converting WQMA into WQCOAs

GSWC requests authority to convert its individual WQMA (including the new one established in Region I if approved by the Commission) into one single "Water Quality Compliance Offset Account" (WQCOA).<sup>4</sup> GSWC asserts that the requested WQCOA would work similarly to existing expense offset balancing accounts for purchased power, purchased water, and pump taxes.<sup>5</sup>

GSWC states that the WQCOAs would apply to (1) costs associated with newly documented changes in existing water quality conditions since the previous general rate case, and (2) costs associated with measures taken to rectify new state and federal regulations since the previous general rate case. However, GSWC states that all costs

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<sup>2</sup> A.06-09-006, p. 11. In Region II, WQMA may be set up for any new rule by state or federal agencies. In Region III, WQMA are limited to costs related to five contaminants.

<sup>3</sup> A.06-09-006, p. 11.

<sup>4</sup> A.06-09-006, p. 12.

<sup>5</sup> A.06-09-009, p. 12. As a second option, GSWC requests that the Commission order three WQCOAs, one for each region. In its third option, GSWC offers to provide further desegregation of water quality costs by districts.

associated with previously known water quality conditions would be included in GSWC's general rate case applications.<sup>6</sup> Moreover, GSWC states that "if the Commission does not authorize full recovery of GSWC's expense offsets, and authorizes a WQCOA, GSWC will use the WQCOA to book the incremental costs for purchased water necessary to comply with water quality standards. . . ." <sup>7</sup>

DRA strongly opposes GSWC's request to convert WQMAs to WQCOAs because this change would eliminate DRA's existing reasonableness review of costs. GSWC's parallel between purchased power, purchased water, and pump taxes balancing accounts and the costs associated with WQMAs lacks merit. In the former, the utilities have no remedial flexibility in those matters. For example, price changes for purchased power, purchased water, and pump taxes are beyond the control of the water utilities. In the latter, water utilities may employ various remedial options. Hence, regulatory oversight via a reasonableness review is necessary to ensure that the water utility has exercised appropriate caution and prudence to rectify a given water quality issue at minimum cost. WQCOAs would eliminate this review.

Costs associated with water quality conditions should continue to be addressed in the General Rate Case (GRC). GSWC's next GRC for Region 1 is scheduled to begin in November 2006, less than a month away. Freeing GSWC from DRA prudency reviews imperils its ratepayers at a time of rapidly increasing rates in the water industry.

GSWC also states that if the Commission does not authorize full recovery of GSWC's expense offsets in a WQMA, and authorizes a WQCOA, GSWC will use the WQCOA to book the incremental costs for purchased water necessary to comply with water quality standards.<sup>8</sup> Again, GSWC's proposal would eliminate the reasonableness review of these costs and should be rejected. Incremental costs for purchased water

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<sup>6</sup> A.06-09-006, pp. 12-13.

<sup>7</sup> A.06-09-006, p. 13.

<sup>8</sup> A.06-09-006, p. 13.

necessary to comply with water quality standards can be included in existing WQMAAs and addressed in GRCs.

3. DRA strongly opposes establishing an Infrastructure Replacement Surcharge (ISRS)

If WQCOAs are not authorized by the Commission, GSWC requests authority to establish an ISRS to provide a funding source for infrastructure replacement completed and placed in service between general rate cases.<sup>2</sup>

DRA opposes the establishment of an ISRS for GSWC if a WQCOA is not authorized. For a detailed analysis of the problems associated with ISRS, please see the discussion under Section D below.

4. DRA opposes GSWC’S request that the Commission authorize Water Quality Compliance at the Notification Level

GSWC requests the Commission authorize water quality compliance at the “Notification Level” rather than the “Maximum Contaminant Level” (MCL).<sup>10</sup> The Department of Health Services (DHS) has set MCLs for most known contaminants. If the contaminant levels rise above the designated MCLs, then a remedial action is necessary. There are few contaminants for which DHS has not established MCLs. However, for such contaminants, DHS put an alternative advisory system called “Notification Level” in place. Notification Levels are health based advisory levels for certain chemicals without MCLs. DHS requires utilities to notify consumers regarding the presence of such contaminants, but does not require remedial action unless the presence of the contaminants rises to what is called “Response Level.”

DRA opposes this request because it unnecessarily makes the water quality compliance response more stringent than what is currently mandated by DHS and imposes an unnecessary burden on ratepayers.

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<sup>2</sup> A.06-09-006, p. 14.

<sup>10</sup> A.06-09-006, p. 12.



## **B. Long Term Planning for Water Infrastructure Projects**

GSWC requests authorization of ratesetting methods that address the need for planning and acquiring new water supplies beyond the 3-year general rate case cycle and eliminate "second guessing" of investments in water supply projects authorized in the 3-year GRC or the Water Management Program.<sup>11</sup> GSWC requests the establishment of a water resource recovery account (WRRRA) to recover for water supply infrastructure projects not known at the time of the 3-year GRC cycle.<sup>12</sup> GSWC also requests the inclusion of Construction Work-In-Progress in rates for new supply projects.

DRA objects to GSWC's requests regarding long term planning for water infrastructure projects with a time horizon beyond the 3-year GRC cycle. Cost forecasts for future water needs depend upon growth projections and present challenges from a ratemaking perspective by burdening existing customers with the cost of projects for future growth.

Additionally, DRA is concerned that GSWC's request to eliminate "second guessing" equates to excising regulatory insight. Past GRC proceedings have exposed operational inefficiencies, cost over runs and poor judgment on the part of utilities that demonstrate a strong need for regulatory oversight. Eliminating review of investments in water supply projects may result in "relaxed" behavior on the part of the utilities that will result in inefficiencies.

DRA opposes GSWC's request to establish a WRRRA for long-term projects that are not known at the time of a GRC. The premise goes against the Urban Water Management Planning Act that compels water utilities to assess their water reliability needs for the next 20 years. An urban utility such as GSWC is expected to have reasonable planning done in advance that goes beyond the 3-year cycle. Second, the problem of uncertainties and cost associated with projects terminated before completion goes against the principle "cost of service" and PU Code § 451.

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<sup>11</sup> A.06-09-006, pp. 14-19.

<sup>12</sup> Id.

DRA also opposes the inclusion of costs in Construction Work-In-Progress (CWIP) as unreasonable. For water utilities, the costs of projects under construction are allowed in CWIP if they have a relatively short completion time period, i.e., one year. However, the inclusion of costs in CWIP for projects that are clearly long-term in nature runs contrary to long-standing Commission practice and serves to effectively reduce Commission scrutiny of these types of projects.

### **C. Water Shortage Allocation Policy**

GSWC requests authority to enact drought management measures more rapidly and requests enforcement measures such as fines and penalties to customers who do not comply with water shortage measures. Part of the proposed action is to modify GSWC Rule 14.1, which deals with drought management, to allow “effective, timely measures ... during times of emergency or shortages and... authorize a variety of alternative mandatory conversation (sic) and rationing penalties...”<sup>13</sup>

DRA opposes GSWC’s request to amend Rule 14.1. GSWC’s proposed changes to Rule 14.1 would reduce Commission oversight and empower GSWC to impose customer fines. Also, drought management is an issue that affects California as a whole. The actions of one region with regard to drought conditions can have fundamental effects on the water supply of other regions. The Commission should address the issue of drought management in a rulemaking proceeding. A rulemaking proceeding would provide an opportunity for the Commission to establish drought management measures that are effective, equitable and consistent statewide.

### **D. Infrastructure System Replacement Surcharge**

GSWC requests authority to establish an Infrastructure System Replacement Surcharge (ISRS) to provide a funding source for infrastructure that is replaced, completed and placed in service between GRCs.

DRA opposes the establishment of an ISRS because such a surcharge essentially subverts the regulatory oversight on capital investment projects related to infrastructure.

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<sup>13</sup> A.06-09-006, p. 9.

An ISRS is not advisable unless a company completes a detailed engineering study of the condition of its infrastructure and prepares a long term plan for replacement. Even if such a study is completed, continued regulatory scrutiny is advisable to ensure costs are kept to a minimum and opportunities for operational efficiencies are maximized.

Due to the far reaching implications of establishing an ISRS, the Commission should address ISRS in a rulemaking proceeding. As GSWC states in its application, an aging and inadequate infrastructure is a problem that plagues California as a whole.<sup>14</sup> A rulemaking proceeding would provide an opportunity for all water companies and interested parties to participate in designing an ISRS that will fully address the infrastructure replacement needs that face all water companies in California.

#### **E. State Bond Funding of Water Infrastructure Projects**

##### **1. Issue of state bond funding not ripe for decision**

GSWC states that “[a]n important component of water infrastructure financing is an aggressive effort on the part of the CPUC to ensure that water utilities are fully eligible to compete for future state bond funding on behalf of their ratepayers – just as public agencies do.”<sup>15</sup> State bond funds have been used for state grant programs such as Proposition (Prop) 50 grants as well as state subsidized (reduced rate) loan programs such as the State Revolving Fund and the California Infrastructure and Economic Development Bank (CIEDB).

While the use of Prop 50 grants has been settled and regulated water utilities have become eligible and are receiving money from Prop 50, the use of state bond issues for loan programs has not been settled. In Commission Decision (D.) 06-03-015 adopting rules governing receipt and use of all future state grant funds received by regulated water utilities, the Commission directs the Water Division to “incorporate the development of

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<sup>14</sup> A.06-09-006, p. 23.

<sup>15</sup> A.06-09-006, p. 26.

draft rules governing government-funded loans in its next rulemaking regarding the regulation of privately owned utilities.<sup>16</sup>

GSWC requests the Commission issue a policy statement that water utilities have the same standing as any other public supplier in representing the interests of their ratepayers.<sup>17</sup> The Commission, however, is not part of the state debt issuance process and cannot determine if, from a tax-exempt perspective, water utilities have the same standing as any other public supplier. In fact, even activities of public agencies are not exempt from the public purpose test required for each proposed bond issue. Whether privately owned water utilities have the “same standing as any other public supplier in representing the interests of their ratepayers” is a question that bond counsel would determine in deciding whether to issue a tax-exempt opinion on any proposed bond issue.

GSWC also requests the Commission actively oppose any bond measure that does not allow water utilities to compete on an equal footing with other public water suppliers.<sup>18</sup> As a practical matter, opposing future bond measures that do not allow water utilities to compete on an equal footing with other public water suppliers effectively binds the Commission to a policy course of action without the benefit of considering all of the risks involved.

The Commission should not prematurely consider the issues advanced by GSWC given that, at this time, both the Department of Water Resources and the Department of Health Services are in the process of developing and implementing rules and procedures for the use of tax-exempt state bond issues for private companies with a public benefit. In the case of the CIEDB, an opinion from bond counsel is pending concerning the conduit funding of water infrastructure through a state subsidized loan. Therefore, a matter of this importance should be addressed only on an industry wide basis, in a

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<sup>16</sup> D.06-03-015, p. 28.

<sup>17</sup> A.06-09-006, p. 26.

<sup>18</sup> A.06-09-006, p. 26.

rulemaking proceeding, where all interested parties will have an opportunity to develop a complete record on which the Commission can render an informed decision.

#### **F. Water Revenue Adjustment Mechanism**

GSWC requests authorization of a Water Rate Adjustment Mechanism (WRAM) to “eliminate disincentives to conserve water.”<sup>19</sup>

Since WRAM’s effect would be unique for each district, GSWC’s request concerning WRAM is at odds with its request for statewide rates. In order to adequately address the issue of WRAM, the matter of statewide rates must be considered. Moreover, to the extent that markets respond to any WRAM related reduction in risk, the adjustment will come in the form of higher utility share prices, which means that ratepayers will not benefit from WRAM’s reduction in risk. For ratepayers to share in the benefit, GSWC’s Return on Equity (ROE) must be adjusted.

Moreover, from a ratemaking perspective, establishing a WRAM for each of GSWC’s many districts, for each of its customer classes, is a complex and cumbersome endeavor that will require in-depth analysis and forecasting. Ensuring that the WRAM does not create inappropriate incentives to either GSWC or its customers will also entail detailed and painstaking analysis and significant public participation in each of GSWC’s many districts. Put simply, establishing WRAM for a geographically dispersed water utility such as GSWC is a major undertaking that will require a major commitment of time, personnel and possibly consulting resources. DRA questions the value of pursuing this option in this application given the other forms of regulatory relief already being sought by GSWC.

Determining how WRAM will affect both GSWC’s ratepayers and shareholders, by reducing GSWC risk profile, is a matter that should be addressed in a rulemaking so that the Commission may develop uniform standards for the application of WRAM.

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<sup>19</sup> A.06-09-006, p. 9.

### **G. Balancing Accounts, Cost Recovery of Expenses and Earnings Test**

GSWC requests Commission authority to (1) consolidate 27 separate expense offset balancing accounts into one supply balancing account; (2) allow for full cost recovery of GSWC's expenses resulting from changes in quantities in expense offset accounts, and (3) eliminate an earnings test.<sup>20</sup> Balancing accounts are authorized by the Commission to let water utilities recover incremental costs, dollar for dollars, for increases in expenses that are above and beyond the control of utilities.

DRA strongly objects because consolidation of GSWC's 27 balancing accounts and full cost recovery of expenses resulting from changes in quantities will take away GSWC's incentive to be efficient in seeking the least expensive sources of water supply. The Commission has addressed this issue several times before and concluded that such a change in existing balancing account procedures would not benefit ratepayers.<sup>21</sup> Moreover, GSWC has provided no documented evidence justifying separate special treatment.

GSWC's request for elimination of the earnings test required by D.03-06-072 is moot because that decision was repealed by D.06-04-037.

Lastly, the three issues raised above by GSWC for treatment of balancing and memorandum accounts apply to all regulated water utilities. Therefore, it would be more appropriate to address these issues in a rulemaking.

### **H. Increasing Block Rate Structure**

GSWC requests Commission's authorization to change the Company's ratesetting mechanism to an increasing block rate structure to more accurately reflect the value of service and promote water conservation.<sup>22</sup>

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<sup>20</sup> A.06-09-006, p. 10.

<sup>21</sup> D.05-07-044, p. 45.

<sup>22</sup> A.06-09-006, p. 33.

DRA opposes the authorization of an increasing block rate structure because GSWC's proposed 5% tier differential will not adequately encourage conservation. GSWC's proposed two tier rate structure is essentially two conventional single rate structures accompanied by guaranteed revenue recovery under WRAM. While GSWC's proposal guarantees revenue recovery, it does not guarantee conservation.

GSWC requests Commission authorization for statewide rates, which would require the Commission to evaluate consumption based on statewide water use. This approach is inconsistent with using tiered rates to encourage conservation. Tiers designed to encourage conservation are based on local consumption patterns, not statewide water use. Tiered or increasing block rates encourage conservation by placing a premium on water use that is beyond base line use. Since GSWC's districts are scattered around the state, each district will have different consumption patterns and base line use. Therefore, if GSWC is serious about conservation rate design, it should not advocate statewide rates, which fail to account for differences in the amount of water consumed in each individual district.

Additionally, the establishment of statewide rates in a tiered rate structure would set a precedent that would affect all the utilities. Once again, this issue would be more appropriately addressed in a rulemaking proceeding that would allow other California water companies as well as other parties such as pro-conservation interest groups and consumer groups to participate.

### **I. Single Statewide Rate for GSWC Operations**

GSWC requests authority to establish a statewide rate, single tariff price (STP) rate structure.<sup>23</sup> GSWC argues that a STP would “encourage and support regulatory efficiency, long-term rate stabilization and affordability.”<sup>24</sup>

GSWC's operations cover regions that differ widely in their infrastructure quality, geographic, topographic, and hydrologic conditions. These differences translate into

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<sup>23</sup> A.06-09-006, p. 10.

<sup>24</sup> A.06-09-006, p. 10.

widely varying cost structures across districts (the actual cost of providing water services to these areas varies widely). PU Code §701.10 requires, *inter alia*, that rates must be “based on the cost of providing the water service.”

DRA strongly objects to abandoning the cost of service approach to utility ratemaking. First, a statewide rate for all of GSWC’s customers would mask cost differences across districts thereby violating well established cost of service principles (PU Code § 701.10 (f)). Second, a statewide rate would result in cross-subsidization violating cost of service principles. If customers whose actual cost of service is lower than the statewide rate pays the same as a customer whose cost of service is higher than the statewide rate then cross subsidization is occurring contrary to sound ratemaking principles.

## **J. Regulatory and Investment Environment**

GSWC asks the Commission to recognize that Investor Owned Utilities (IOU) face increased risks due to large and increasing capital spending requirements. While it is true that utilities are capital intensive and that water requires the highest level of capital investment, such risks are not borne by the IOUs alone. Ratepayers, unable to acquire water from other sources, share in the risk with the IOU through potential rate increases. Additionally, IOUs are eligible for grant and state subsidized funding for capital spending, they have greater access to capital and reduced risk. These reductions in risk should translate into a lower return on equity. Although the IOU cannot earn on the grant or state funded portion of its ratebase, its customer base expands and the IOU benefits from economies of scale.

GSWC claims that investors will not respond to the changes in risk profile that will result from the proposed policy changes now in front of the Commission. GSWC claims investors will not reward the company with higher share prices, even if the Commission adopts policy changes such as eliminating the risks associated with conservation rates (through WRAM) or the reduced risk (and cost) of grant and state subsidized funding for infrastructure.



GSWC's claim that investors will not reward it with higher share prices is contradicted by evidence from the financial community; S&P recently revised its outlook for GSWC from negative to stable.

GSWC also claims that "use by DRA of a standardized model for estimating future sales volumes will unavoidably increase risk and GSWC's required return on equity."<sup>25</sup>

GSWC's claim of "unavoidably" increased risk is at odds with its request for WRAM. In requesting WRAM, GSWC is asking for protection from, in fact elimination of, the increased risk associated with lower sales which would negate its claim that "a standardized model for estimating future sales volumes will unavoidably increase risk."

#### **K. Consolidation of Non-Viable Water Utilities**

GSWC requests that the Commission set criteria to define small, non-viable water companies, provide incentives for their acquisition by larger companies and make procedural changes that allow the acquisition to be placed on a "fast-track" for Commission approval.<sup>26</sup>

GSWC has not provided any documented information supporting claim that it needs more incentives. GSWC has failed to provide any documentation supporting its allegations that the Commission ever: 1) failed to act promptly on GSWC request to acquire a small water utility; 2) rule unfairly on the incentives requested by GSWC; and 3) has in any way limited the utility's ability to request incentives or deviations from adopted policies. GSWC's entire showing is based on a hypothetical situation.

Additionally, the consolidation of small non-viable water utilities is a significant issue for the State of California. It affects all large water companies and should be addressed in a rulemaking to enable consistency in setting ground rules, guiding principles, and criteria. Additionally, a rulemaking would provide an opportunity to fully

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<sup>25</sup> A.06-09-006, p. 10.

<sup>26</sup> A.06-09-006, pp. 45-47.

explore and evaluate the various options to promote and ease the acquisition of small, non-viable water companies.

## **V. ADDITIONAL ISSUES**

### **A. Customer Notice**

DRA is concerned with the rate implications for customers of the ratesetting mechanisms requested by GSWC in its application. Although GSWC claims that the requested ratesetting mechanisms are revenue neutral on a system-wide basis, it is clear that some districts within GSWC's three regions will face significant rate increases.

DRA believes that the GSWC customers affected by these changes should have the proper notice and opportunity to comment on the proposed changes at a Public Participation Hearing. This opportunity for customers to be heard is especially important since some districts will be subsidizing lower rates in other districts, an occurrence which may only increase in the future.

### **B. Expansion of Service List**

DRA believes that the existing service list for this proceeding should be expanded. GSWC's application requests rate mechanisms and methodologies that are not currently part of the ratemaking norm for regulated California water utilities. The establishment of the rate mechanisms and methodologies requested by GSWC will have a fundamental impact on water ratemaking throughout California and affect many parties.

Parties affected by the mechanisms in GSWC's application should have the proper notice and opportunity to participate in this proceeding. DRA recommends broadening the service list for this proceeding to include those on the service list for R.03-09-005 as well as those parties who filed comments on the Water Action Plan.<sup>27</sup>

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<sup>27</sup> R.03-09-005 is the Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise the General Rate Case Plan for Class A Water Companies.

### **C. Issues Appropriate for Rulemaking**

DRA finds that the following issues have statewide policy implications and will affect all regulated water utilities in California: (1) Water Shortage Allocation Policy; (2) Infrastructure System Replacement Surcharge; (3) State Bond Funding of Water Infrastructure Project; (4) Water Revenue Adjustment Mechanism; (5) Balancing Accounts, Cost Recovery of Expenses and Earnings Test; (6) Increasing Block Rate Structure; and (7) Consolidation of Non-Viable Water Utilities.

Therefore, the Commission should address the above issues in a rulemaking proceeding that allows all interested parties such as regulated water utilities, public agencies, consumer and environmental groups, and ratepayers to participate.

## **VI. CATEGORIZATION AND PROPOSED SCHEDULE**

DRA agrees with GSWC's proposed categorization of this proceeding as ratesetting. DRA believes that hearings will be necessary to resolve the important issues raised in GSWC's application. Public participation hearings in all of GSWC's service areas will be necessary due to the ratemaking implications of this application. Therefore, DRA requests that a prehearing conference be held to establish a schedule for this proceeding.

DRA respectfully seeks a change to the schedule proposed by GSWC. GSWC seeks to establish many complex ratesetting mechanisms and ratemaking policies in its application. Due to the complex nature of GSWC's application, a careful evaluation and response to GSWC's application will require substantial time and resources on the part of DRA staff. Currently DRA staff is involved in at least fifteen active proceedings, with an additional two GRCs being filed in November. Additionally, DRA may require time to hire consultants with the requisite experience regarding some of the requests in GSWC's application. Therefore, DRA respectfully requests that the date set for the distribution of DRA reports be set for a date at least six months from the issuance of the Scoping Memo.

## VII. CONCLUSION

GSWC's application requests significant changes to its ratesetting mechanisms, which would require the Commission to decide major policy issues that will have a profound effect on all regulated water utilities in California. Thus, DRA recommends addressing many of these issues in a rulemaking proceeding in which all interested parties, including regulated water utilities, environmental and consumer groups, ratepayers and others, could participate.

DRA will be conducting discovery to develop its testimony and recommendations. Hearings will be required and a schedule should be established at the prehearing conference that allows for a diligent review of the requests in the application. Since DRA has not completed discovery or filed its report, it reserves the right to assert any issue discovered after this Protest has been filed.

Respectfully submitted,

/s/ Maria L. Bondonno

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Maria L. Bondonno  
PUC Counsel III

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 355-5594  
Fax: (415) 703-4432

October 10, 2006

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document  
**“PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES TO THE  
APPLICATION OF GOLDEN STATE WATER COMPANY FOR AUTHORITY  
TO IMPLEMENT CHANGES IN RATESETTING AND ALLOCATION OF  
RATES”** in A.06-09-006.

A copy was served as follows:

☒ **BY E-MAIL:** I sent a true copy via e-mail to all known parties of record  
who have provided e-mail addresses.

☐ **BY MAIL:** I sent a true copy via first-class mail to all known parties of  
record.

Executed in San Francisco, California, on the 10th day of October, 2006.

/s/       NELLY SARMIENTO

\_\_\_\_\_  
NELLY SARMIENTO

**NOTICE**

Parties should notify the Process Office, Public Utilities  
Commission, 505 Van Ness Avenue, Room 2000, San  
Francisco, CA 94102, of any change of address and/or  
e-mail address to insure that they continue to receive  
documents. You must indicate the proceeding number  
on the service list on which your name appears.

\* \* \* \* \*

## **SERVICE LIST**

KSwitzer@gswc.com  
demorse@omsoft.com;  
jlg@cpuc.ca.gov;  
flc@cpuc.ca.gov;  
des@cpuc.ca.gov  
dsb@cpuc.ca.gov  
bon@cpuc.ca.gov  
mpo@cpuc.ca.gov